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ABSTRACT

As an informational aid for community college development officers, this report describes the process of applying to the Department of Health, Education, and Welfare (HEW) for funds to cover the indirect costs associated with federally sponsored college programs. The report argues that while more community colleges should avail themselves of indirect costs funding, the preparation of an Indirect Cost Proposal is a costly process which requires the expertise of college business officers and which should be undertaken only if the college is receiving a federal award with an indirect cost component. The report then draws from HEW guidelines to distinguish between direct and indirect costs and to define six indirect cost categories: general administration, research administration, operations and maintenance, library operations, departmental administration, and student administration and services. "Long" and "abbreviated" forms used in itemizing allowable indirect program costs are discussed prior to an explanation of the final Indirect Cost Rate, which is agreed upon after negotiations with HEW. This rate is determined by dividing allowable indirect costs by total direct costs and using the resulting ratio to determine the dollar amount to be added to the federal award in order to cover indirect costs. The report concludes with a sample of a completed "abbreviated" form. (JP)

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RESOURCE PAPER NO. 12

INDIRECT COSTS:
AN INTRODUCTION FOR THE COMMUNITY COLLEGE DEVELOPMENT OFFICER

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December, 1976

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What are Indirect Costs? How does a community college qualify for Indirect Costs? How are Indirect Costs translated into dollars? How many dollars? What are the procedures involved?

Such questions about Indirect Costs are very much in evidence at community colleges across the country. Largely through ignorance of the processes involved, community colleges have excluded themselves from the dollar-stretching benefits of Indirect Costs. Too frequently it has been assumed that Indirect Costs were available only to research oriented four-year colleges and universities, or that only the largest of community colleges were capable of wrestling with the complexities of Indirect Costs. To help dispel this view, and to encourage more community colleges to become involved in the preparing of Indirect Cost Proposals, is the object of this NCRD resource paper.

Do not, however, rush off to prepare an Indirect Cost Proposal merely in the hope that it will produce more federal dollars for your institution. The investment in time and effort is substantial. Not all community colleges are involved extensively in federal programs. Nor do all federal programs have an Indirect Cost component. The most sensible approach is to look before you leap.

As a beginning, contact your Regional HEW Office. There you will find an individual in the Office of Management and Finance who usually goes by the title of Director, Division of Negotiations and Granting Assistance. This person is responsible for all of the Indirect Costs of all higher education institutions in the Region, including those relating to federal agencies other than HEW. He or one of his aides can provide the information and assistance you will require in preparing an Indirect Cost Proposal.

Before that happens, however, he will probably tell you that it is too much trouble to do anything until you know for certain that your community college will receive an award which includes an Indirect Cost component. There is little reason

to go through this process for the exercise, or in the expectation that in some unspecified future year you might receive such an award. An Indirect Cost Proposal applies only to the year for which a program award is made. There is not much point in attempting to prepare one in advance.

After receiving confirmation of a program award involving Indirect Costs, you will have ninety days to prepare and submit an Indirect Cost Proposal to your Regional Office. If completed and approved within the 90-day period, it will be made retroactive to the beginning of the progarm award year. For multi-year programs, a new Indirect Cost Proposal must be submitted at the end of each fiscal year to validate Indirect Costs for the forthcoming year.

The processes relating to Indirect Costs are often complex and tedious. Do not become discouraged. Remember that your specialty is Development, not Indirect Costs. As a Development Officer in a community college, you are fortunate to be situated in an institution which holds as a cardinal principle that nearly everyone can succeed if he or she gets the right kind of help. Your kind of help is located in the Business Office. Don't be a do-it-yourselfer. Indirect Costs is a highly technical budget and accounting process. Leave most of the work to the budget experts in your institution.

They will need your help and some basic tools to work with. There are some fundamental information materials you should be familiar with, and your Business Office friends will need current copies of these documents. As most community colleges do the largest share of their federal program work with HEW and the Office of Education, the following will prove most useful:

DHEW. A Guide for Colleges and Universities: Cost Principles and Procedures For Establishing Indirect Costs....

DHEW. Grants Administration Manual.

Note: The above publications may be purchased from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. The first is usually available from the Regional HEW Office at no cost, and will

be of the most immediate assistance. It contains a complete copy of Federal Management Circular 73-8 (formerly OMB Circular A-21 -- and soon to revert again to the OMB classification). It also contains sample formats for Indirect Cost Proposals.

Having disposed of the greater share of the burden of Indirect Costs by the relatively simple process of heaping it upon the backs of your Business Office staff, it will still be useful for you to be acquainted with the "basics" of Indirect Costs. Space limitations make it impossible to cover everything, and we must be content with a few brief explanations of the essentials.

What Are Indirect Costs?

Direct Costs and Indirect Costs are a part of every institutional budget. Direct Costs of instruction include the salaries paid to instructors from the instructional budget. Indirect Costs of instruction include a portion of the budgets allocated to Physical plant, administration, student services, library, etc., as they indirectly service the instructional program.

The line between Direct and Indirect Costs is often finely drawn. And not every institution divides its budget in exactly the same way. To clarify these grey areas the documents identified above provide some options and further explanations.

Those closely associated with federal programs in the community college realize that there are many ways in which an institution contributes to their successful operation above and beyond the direct application of program award dollars. They are more subtle and "indirect" than line items in the program budget, but are nonetheless recognized as essential to the success of every federal program. This indirect support of federal programs takes such forms as utilization of space (classrooms, laboratories, offices, etc.), administrative supervision, accounting and fiscal reporting by the Business Office, peripheral

involvement by members of the college staff, maintenance of the physical plant, custodial services, etc. -- all provided by the institution at no direct cost to the federal program budget. In this sense, "Indirect Costs" is a mechanism devised to give recognition to these vital institutional contributions by translating them into a dollar value and making proportional reimbursement to the college.

For purposes of Indirect Costs, HEW considers that there are three major functional divisions of a college or university:

1. Instruction
2. Organized Research
3. Other Institutional Activities

"Direct Costs" are those costs that are incurred for common or joint objectives and connot be identified exclusively with one of the above. They overlap two or more of the above divisions and are normally classified under the following categories:[1]

1. General Administration and General Expenses: incurred for the general executive and administrative offices; also expenses of a general character wnich do not relate solely to any of the three major functional divisions, above.

2. Research Administrative Expenses: incurred by a separate organization or identifiable administrative unit established solely to administer the research activity. (Normally NA for community colleges.)

3. Operation and Maintinance Expenses: incurred by a central service organization or at the departmental level for the administration, supervision, operation, and maintennace of the physical plant.

4. Library Expenses: incurred for the operation of the library, including the costs of books and library materials purchased for the library (less any items of library income -- fines, etc.).

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[1] DHEW. Guide...for Establishing Indirect Costs.... pp. 20-21, 37.

5. Departmental Administration Expenses: incurred in academic deans' offices, academic departments and organized research units for administrative and supporting services which benefit common or joint departmental activities or objectives.

6. Student Administration and Services Expenses: incurred for the administration of student affairs and for services to students, including deans of students, admissions, registrar, counseling and placement services, student advisers, student health and infirmary services, catalogs, commencements, and convocations.

Note: Each of the above also include salaries, benefit and pension plan costs, prorated physical plant operation and maintenance costs, and depreciation.

What finally emerges is a sorting out of those portions of an institutional budget that qualify as "Allowable Indirect Costs." These are totaled and computed as a ratio (percentage) of "total direct costs" (usually defined as direct salaries and wages). Caution: there are items within an institutional budget that are neutral -- neither direct nor indirect -- and must be deleted prior to making the computation.

Indirect Cost Proposal

An Indirect Cost Proposal is an application for an Indirect Cost award. It is submitted, as are other federal program applications, in hopes that it will be approved and funded. In form it is not as rigidly structured as most of the program applications with which you are familiar. You will need to devise a structure suited to your institutional budget, and it is essential that you communicate with your Regional Director of Negotiations and Granting Assistance at this juncture. He will guide you in laying out the format of your Indirect Cost Proposal.

In general there are two basic forms: the "long form" and the "abbreviated method" (similar in function to the long and short income tax forms). The long form is designed for institutionas having more than $1 million dollars per year in direct costs under federal research and/or educational service aggreements. This

long form also requires a highly sophisticated accounting and records-keeping process.

The abbreviated method (short form) is designed for institutions having less than $1 million dollars per year in direct costs under federal research and educational service agreements. Such an abbreviated method proposal would normally take on an appearence like the sample shown on page 5.

Following the submitting of your Indirect Costs Proposal to the Regional Office, a negotiation will take place to determine the final approval of Allowable Indirect Costs. This makes possible the establishment of an "Indirect Cost Rate" which is determined on the basis of the following formula:

Allowable Indirect Costs Direct Costs (Salaries + Wages) = Indirect Cost Rate

The Negotiated Indirect Cost Rate is then subject to review and approval by the Regional HEW Comptroller. He is responsible for approving (or disapproving) the Indirect Cost Rate and determining whether it -- or a flat rate of 8% -- is applicable to the specified federal program. Training Awards and Contracts have a fixed automatic rate of 8% which need not be applied for separately.

The Indirect Cost Rate is renewed each year, based upon the institutional budget of the most recently completed fiscal year. The major consideration in any Indirect Cost Proposal, and also from year to year, is the consistent treatment of direct and indirect costs. It is therefore wise to establish a process that can be followed each year to identify and separate direct from indirect costs.

When Indirect Costs are approved for reimbursement the dollar amount is determined by applying the Indirect Cost Rate to the Direct Costs of the federal program award. The resulting figure is then added to the total of the federal program grant. The college will receive Indirect Cost dollars via the same process, at the same time, and in the same proportion as program dollars are received.

UNIVERSITY OF CALIFORNIA
ERIC CLEARINGHOUSE FOR JUNIOR COLLEGES
96 POWELL LIBRARY BUILDING
LOS ANGELES, CALIFORNIA 90024

AUG 14 1981

- SAMPLE -

INDIRECT COST RATE

- SAMPLE -

Based on Financial Data for the Fiscal Year Ended June 30, 19___

Budget Accounts	REPORTED EXPENDITURES			ELIMINATIONS & ADJUSTMENTS		ADJUSTED EXPENDITURES					
						DIRECT COSTS			INDIRECT COSTS		
	Salaries & Wages (A)	Other (B)	Total Expenditures (C)	Salaries & Wages (D)	Other (E)	Salaries & Wages (F)	Other (G)	Total Direct (H)	Salaries & Wages (I)	Other (J)	Total Allowable Indirect (K)
ADMINISTRATION President's Off. Trustee Expense Business Office Etc. STUDENT SERVICES INSTRUCTION PHYSICAL PLANT LIBRARY AUXILIARY SERVICES ETC. (each broken into component line items)	total *salaries & wages* for each line item	total *other* for each line item	budget total for each line item; sum of columns A and B; also sum of columns D, E, H, and K.	base distorting *salaries & wages;* neither direct nor indirect usually NA except for institution share of college work study.	base distorting *other;* neither direct nor indirect; includes interest, capital expenditures, equipment, major alterations and renovations, library fines, parking fees and fines, etc.	total *direct salaries & wages* for each line item as applicable.	total *direct other* for each line item as applicable.	total *direct costs* for each line item as applicable; sum of columns F and G.	total *indirect salaries & wages* for each line item as applicable.	total *indirect other* for each line item as applicable.	total *allowable indirect costs* for each line item as applicable; sum of columns I and J.
TOTAL (Example)	950,825	406,312	1,357,137	42,500	69,975	876,154	122,630	998,784	141,655	104,223	245,878

INDIRECT COST RATE equals sum of column K divided by sum of column F: $245,878 ÷ $876,154 = 28.06%